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BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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2 attachments

TO: Directors and Administrators of State Agencies

FROM: Chuck Swysgood, Budget Director
Office of Budget and Program Planning

DATE: April 16, 2004

SUBJECT: Executive Budget Guidelines for Enterprise and Internal Service Funds

These guidelines apply to the submission of budget requests for certain proprietary funds for the 2007 biennium executive budget. The guidelines are in accordance with 17-7-123(1), MCA:

"17-7-123. Form of executive budget. (1) The budget submitted must set forth a balanced financial plan for funds subject to appropriation and enterprise funds that transfer profits to the general fund or to accounts subject to appropriation for each accounting entity and for the state government for each fiscal year of the ensuing biennium. The base level plan must consist of:

- (f) a report on:
 - (i) enterprise funds not subject to the requirements of subsections (1)(a) through (1)(e), including retained earnings and contributed capital, projected operations and charges, and projected fund balances; and
 - (ii) fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium."

This memo does not pertain to the State Lottery and Liquor Division enterprise funds because they are subject to the requirements of subsection (1)(a) - (1)(e), 17-7-123, MCA.

Background

Passage of HB 576 during the 1995 legislative session changed statute to move proprietary funds off budget and require fees and charges that finance internal service funds to be commensurate with costs and approved by the legislature in HB 2.

Scope

Between Aug 23 -31, 2004, agencies will submit to the OBPP information regarding proprietary accounts requested to be funded by non-HB 2 proprietary funds in the 2007 biennium. The request schedules, supporting documentation entered in MBARS, and the internal service fund rates will be reviewed and analyzed by your budget analyst and summarized in the executive budget. The budget request instructions [no later than August 12] will contain more information on submitting budget requests.

Analysis Policy

Enterprise Funds (fund “060xx”)

The emphasis of this reporting format is on the analysis of fund balances. Name the individual charge, and/or the charge amount, and the means by which the charge is set (statute, administrative rule, administrative formula) in the enterprise fund template.

Internal Service Funds (fund “065xx”)

The emphasis of this reporting format is on the analysis of fees and charges that will be used to make policy decisions, such as deciding whether a state entity should continue to provide the service. Statute requires fees and charges of internal service funds to be approved by the legislature in the general appropriations act. The schedule and supporting narrative will be used to make decisions on the internal service fund rates. The Legislative Budget Analysis will include the files of the Governor’s Executive Budget proprietary information. This book will be the working document for the legislature to use during the session for reviewing and approving internal service rates.

Presentations to the Legislature will be structured around discussions of the base year rates in effect at fiscal year end, and changes to those rates. Any changes to the base year rate will be discussed in decision packages that present rationale for the changes to the base rate.

Please note that 17-7-123, MCA, states that fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.

Each agency must justify and maintain documentation for both internal service and enterprise funds that support rates that are commensurate with costs. Report the total annual revenue by each major charge/rate, and aggregate the revenue received from minor charges/rates.

Administering agencies are responsible for compliance with the requirements of OMB Circular A-87 in the development of rates applicable to federal programs.

Specific Guidelines

The proprietary funds budget requests will be consolidated in a separate publication for the Governor’s Executive Budget. The enterprise account charges and the internal service fund rates will be presented in Microsoft Excel, and the narrative will be presented in MBARS.

There are two templates in guest\proprietary\--one for an enterprise account and one for an internal service fund. ‘Save As’ proprietary\xxxx\06yyy.doc where xxxx is your agency code and yyy is the last three digits of your fund. For each completed fiscal year, the rate actually

charged at FYE should be listed for each separate fee or charge and for each year shown on the table. For incomplete and future fiscal years, identify the anticipated highest or maximum rates to be charged to the customers

MBARS will be used to submit the narrative section of the proprietary account in August. Required sections are outlined below. The MBARS titles under which the text is to be entered are noted below in *italics*. For programs with multiple funds, please delete the headers and continue with the narrative. (An example of this will be used during the training sessions.)

Program Description [*MBARS Title is Proprietary Program Description. This is a Mandatory field for internal service and enterprise funds.*] For each fund, briefly explain the services provided; the statutory authority for the program to provide the service; the customers served by each service (mandated/non-mandated); and any other points of interest about the fund for the period covered by the data (previous, current, and budget request biennium), such as: 1) any program organizational changes, 2) major service changes, or 3) major customer base changes.

Revenues, Expenses, and Fund Equity [*MBARS Title is Proprietary Revenues and Expenses. This is a Mandatory field for internal service and enterprise funds. You will have to create your own sub-headers within this Title for Revenue Description, Expense Description, Working Capital Discussion, and Fund Equity and Reserve Fund Balance.*]

- (1) **Revenue Description** - Describe all sources of revenues deposited into the fund. For each fee or charge separately billed to customers, include a brief description of: 1) the services provided in exchange for customer payments; 2) the customer base for the service funded by the fee, if different than the customer base for the fund; 3) the historical and projected trends associated with volume of services, explaining any projected changes in service volumes; 4) base year funding, by fund type, for customer payments made to the program; 5) the SABHRS accounts used by the customers to record the expenditures for payment of the fee or charge (6xxxx); and 6) the SABHRS account used by the program to record revenues received from customer payments (5xxxxx).
- (2) **Expense Description** - Describe all major classes of expenses used to support the services provided by the program. In doing so, identify and briefly explain: 1) the major cost drivers of each separate rate; 2) factors that contribute to uncertainty in forecasting expenses for major cost drivers; 3) assumptions used to anticipate future costs of major cost drivers; 4) non-typical and one-time expenses that appear in the data for historical and future years shown on the Excel spreadsheet; 5) variations in expense patterns; and 6) the number of FTE funded by the Legislature for the base year.
- (3) **Working Capital Discussion** - Justify the amount of working capital needed to maintain on-going operations. Explain agency management objectives for maintaining costs commensurate with fees charged. Report how revenue and expense cycles factor into the determination of working capital. In the case of internal service funds, explain how working capital is considered in the determination of the rates. When calculating working capital, do not include non-cash items.
- (4) **Fund Equity and Reserved Fund Balance** - Describe, for all years, any requirements the program has to reserve fund balance, and a description of

the major balance sheet accounts (assets and liabilities) that contribute most significantly to any fund equity balance, including the amount of fund equity attributed to working capital. The difference between the Total Fund Equity and the Reserve is to be entered on the Excel spreadsheet line “Unreserved Fund Balance.” Explain management objectives to increase, decrease, or maintain fund balances as compared to the FY 2004 base year fund balance.

Rate Explanation [*MBARS Title is Proprietary Rate Explanation. This is a Mandatory field for internal service and enterprise funds.*]

Programs funded with internal service funds will describe very specifically the type of rate being requested (such as percentage of personal services, a fixed amount of working capital, a fixed rate, or a maximum amount of costs that can be allocated to customers). This may be one single, short statement. To the extent necessary but do not be repetitive, also explain any instances where the rate requested is different than the rate actually billed to the customers, why the requested rate is the most logical structure, how the rates were determined, the allocation methodology for distributing indirect costs to separate rates, and any requested changes in the rate structure. All changes from the rates charged at FYE of the base year will be approved via decision packages.

Supplemental Schedules: For each year shown on the Excel spreadsheet and FOR EACH SEPARATE RATE, provide schedules that show: 1) the actual rate(s) and structure charged or anticipated to be charged (if these are different, explain why they are different); 2) the legislatively-approved rate and structure; 3) the actual or forecasted volume of services; 4) direct costs broken out into first level SABHRS expense accounts and designated with the percentages of direct costs that are fixed or variable costs; and 5) the allocation of indirect costs to separate rates.

Significant Present Law [*MBARS Title is Proprietary Significant Present Law. This is a Mandatory field for internal service funds only.*]

Within MBARS decision packages (DPs), describe all significant present law (PL) adjustments. Significant is defined as any adjustments that have an effect on the requested rate. Explain the impact of each PL DP on the rate charged at FYE and on the unreserved fund balance of the base year. Since the primary purpose for including decision packages in the budget request is to justify changes to the rate charged at FYE of the base year, decision packages that do not identify the impact on the rate will not be considered for approval.

New Proposals [*MBARS Title is Proprietary New Proposals. This is a Mandatory field for internal service funds only.*]

Submit new proposal (NP) adjustments (those that change a current service or those that change fund types) within MBARS decision packages (DPs); and explain the impact of each NP DP on the requested rate and on the unreserved fund balance. Since the primary purpose for including decision packages in the budget request is to justify changes to the rate charged at FYE of the base year, decision packages that do not identify the impact on the rate will not be considered for approval. If there is a funding switch new proposal for the program, complete the Excel spreadsheet without showing the funding switch. Rather, describe fully in the new proposal narrative the total dollar amount, impact on the rates, and justification for the request within MBARS.

Information to Assist in the Preparation of the Report *[MBARS Title is Proprietary Other Issues. This is an Optional field for both Internal Service and Enterprise funds.]*

The proprietary funds use a full accrual basis of accounting, i.e., non-cash issues are captured. Projected 2007 biennium expenses are to reflect the FY 2004 actual experience, with two exceptions: (1) project personal services with no vacancies for the current FTE level using the January 2005 pay plan amounts each year; and (2) independent and detailed justification is required for any projections in the "Miscellaneous Other" category.

Proprietary funds will be reported in the Governor's Executive Budget in a format that ties to the Comprehensive Annual Financial Report (CAFR). These tables will be available early in August on the guest directory with downloaded FY 2002 and FY 2003 adjusted data, FYE 2004 actual SABHRS, budgeted FY 2005, and requested FY 2006 and FY 2007 data from your MBARS budget request. It will be each agency's responsibility to review and verify the accuracy of these tables. In September, the OBPP and the LFD will work with you on making needed adjustments.

NOTE: In a few cases, the CAFR combines more than one fund together for reporting purposes. When this occurs, separate Excel tables will be prepared for each fund. When all Excel tables are combined as they are in the CAFR, the table sums should tie to the CAFR. For example, the CAFR lists information for "Buildings and Grounds," which combines funds 06528 (Rent and Maintenance) and 06541 (Grounds Maintenance & Snow Removal).

Training Sessions.

The Governor's Budget Office and the Legislative Fiscal Division will conduct training sessions on April 21 from 9:30-10:30 a.m. and 1:30-2:30 p.m., and on April 22 from 1:30 to 2:30 p.m. in the Capitol Building Room 250. We will review this memo and its attachments, present some specific examples of MBARS narrative, and answer your questions. Please contact Christi Moyer, Senior Budget Analyst, at ext. 4895 if you would like to attend one of these sessions, or if you have any questions regarding these guidelines.

Available in Guest\Proprietary:

- Internal Service Fund Template
- Enterprise Fund Template
- Agency fund table(s) (available in August)